

MEETING OF THE  
NATIONAL PETROLEUM COUNCIL

Thursday,  
June 28th, 1990

The Madison Hotel  
Dolly Madison Ballroom  
15th and M Streets, N.W.  
Washington, D.C.

PRESENT:

LODWICK M. COOK,  
Chairman  
National Petroleum Council

HONORABLE JAMES D. WATKINS,  
Secretary of Energy

ROBERT McCLEMENTS, JR.,  
Chairman,  
Committee on Energy Preparedness

HONORABLE ROBERT H. GENTILE,  
Assistant Secretary  
Fossil Energy  
Department of Energy

FRANK A. McPHERSON,  
Chairman  
Finance Committee

L. FRANK PITTS,  
Nominating Committee

P R O C E E D I N G S

9:00 a.m.

CHAIRMAN COOK: Good morning. I know you're out there. Good morning.

That's better. Some of you must have stayed up late after the reception last night.

The 96th meeting of the National Petroleum Council will, please, come to order. Ladies and gentlemen, you have before you a copy of this morning's agenda. As usual, we have a very good turnout, and I suggest that we dispense with the calling of the rolling. If there's no objection, the check-in outside will serve as the official attendance record for this meeting. If you have not checked in before the meeting, please do so immediately following adjournment.

Now, I would like to introduce the people seated at the head table. On my far left is the Honorable Robert H. Gentile, Assistant Secretary for Fossil Energy.

Bob, welcome.

(Applause)

Next to Bob is Robert McClements, Jr., Chairman of the NPC Committee on Emergency Preparedness, and as all of you know, Chairman of Sun.

Bob, welcome.

(Applause)

1 On my far right is Marshall Nichols, Executive  
2 Director to the Council.

3 (Applause)

4 Next to Marshall is Ray L. Hunt, Vice Chairman of  
5 the Council and head of his own company.

6 Ray, welcome.

7 (Applause)

8 On my immediate right is the Honorable James  
9 Watkins, Secretary of Energy. We are very pleased to have  
10 Admiral Watkins with us this morning, and I'll introduce  
11 him right now.

12 Our first item of business is to hear from  
13 Secretary Watkins. In the year since he ~~had~~<sup>ed</sup> spoke to us  
14 last, a number of events have occurred that dramatically  
15 affected our industry, some as late as a couple of days  
16 ago, and we're happy to have him here with us today to talk  
17 about these issues. After his remarks, he's indicated he's  
18 willing to take your questions.

19 Welcome, Jim. I'll now turn the podium over to  
20 you.

21 (Applause)

22 SECRETARY WATKINS: Thanks very much, Chairman  
23 Lod and distinguished members of the National Petroleum  
24 Council, ladies and gentlemen.

25 I think this is a very, very timely session that

1 NPC is having. We're going to go through the six final  
2 months of developing the energy strategy, and my intent is  
3 to involve NPC at the right moments as we go down that  
4 stretch so that we put the very strongest and best face on  
5 the petroleum and gas side of our strategy.

6 One year and about three months ago, I stood here  
7 and delivered my second speech as President Bush's  
8 Secretary of Energy. As you recall, less than three weeks  
9 before that, the Exxon Valdez had struck Bligh Reef  
10 affecting not only the coastline of Prince William Sound,  
11 but also leaving an indelible mark on the consciousness of  
12 the American people.

13 In the months to come, an offshore moratorium,  
14 three times larger than any imposed previously, would be  
15 enacted by the U.S. Congress, legislation granting access  
16 to the Arctic National Wildlife Refuge for oil and gas  
17 exploration after passing the Senate Energy Committee by a  
18 vote of 12 to seven would be tabled.

19 The 1989 might be called the year the earth spoke  
20 back, some said, and the public's confidence in the ability  
21 of the energy industry to function in an ecologically  
22 responsible manner would be hit a new blow.

23 I talked to you a year ago about the challenges  
24 ahead of us, challenges of restoring public confidence,  
25 vitalizing the health of domestic petroleum industry,

1 developing and transferring new technology and, most  
2 importantly, putting this country back on course towards  
3 regaining control of its energy future.

4 A year ago, I talked about our goal of creating a  
5 National Energy Strategy. It was to be a plan of action  
6 designed to address problems, not just a statement of  
7 policy, and that is still the plan. The action plan, I  
8 told you, would be based upon the broadest possible  
9 consensus built through the most extensive energy policy  
10 dialogue ever conducted with the American public. I told  
11 you that the action plan would strike a rational,  
12 sustainable ~~bounty~~ <sup>balance</sup> between the environment and economic  
13 growth and energy supply and international competitiveness.  
14 Finally, I pointed out the action plan would address  
15 problems by making specific recommendations on how we can  
16 enhance the nation's energy security, economic vitality and  
17 ~~the~~ environmental cost.

18 A year ago, the National Energy Strategy was a  
19 concept. Today, we are more than midway through the  
20 process. We've created a public dialogue reflected in more  
21 than 20,000 pages of testimony, <sup>with</sup> recommendations and other  
22 documentation conveying to us important messages from the  
23 American people. ~~The~~ <sup>the</sup> results of this dialogue ~~was~~ <sup>were</sup> presented  
24 in our interim report on the National Energy Strategy  
25 issued on April 2nd.

1 As you know, we labeled that <sup>compendium of</sup> a public comment. I  
2 think it was very important to do that for many reasons.  
3 One, we weren't ready to deal with the recommendation. We  
4 hadn't done all the analytical work that we accused other  
5 people of not doing. We weren't really ready to sit down  
6 and work out the problems that we're now sitting down to  
7 do. <sup>And</sup> ~~^~~ We wanted to let people know this is a very complex  
8 matrix of economics, science, environment as well as  
9 energy. I think by letting everyone know that we have  
10 mixed feelings out there that are very intense, no nuclear  
11 program, no fossil program, all that sort of thing is in  
12 there.

13 So we are now reducing the 750-plus recommended  
14 actions to a more manageable set of options for further  
15 analysis. As I committed at the outset of this winnowing  
16 process, we continue to involve the public in it as much as  
17 possible. <sup>Two</sup> ~~to~~ <sup>are</sup> ~~our~~ hearings ~~are~~ scheduled in July, to help us in  
18 areas of economic research, which simply is not adequately  
19 covered in our baseline of data to date and another one on  
20 health in energy, which we had omitted, which my Secretary  
21 of Energy Advisory Board, with Bill Fisher here a member of  
22 the NPC who is on that panel, strongly urges that we get  
23 into it ~~because it will be a major issue as we face such~~  
24 things ~~as~~ <sup>as \_\_\_\_\_ (inaudible)</sup> ~~ahead,~~ radiation and its impact on the environment.

25 Additional workshops and hearings will continue

1 to be held this summer to ensure that the difficult energy  
2 choices we face are made on the best possible information  
3 and analysis we can get. In December, we will deliver to  
4 the President a set of options that will frame for him the  
5 key decisions that must be made to give this nation a clear  
6 energy program with measurable objectives for the short and  
7 long term.

8 Lately, as you know, there seems to be a great  
9 congressional and interest group consternation over our  
10 plan to provide the President with options in December  
11 rather than quote recommendations, and, frankly, I find  
12 this spirit to be perplexing except as it would inflame  
13 certain fires of political debate in this election year,  
14 which I don't intend to get involved in.

15 The man elected President, who also happens to be  
16 a man who knows more about energy business than most any  
17 President you've ever had, ought to have something to say  
18 about his Administration's energy policies. He knows many  
19 of you personally. He deals with you. He's an oil man. I  
20 have the greatest faith and respect in him as I watch him  
21 shoulder the burdens of his office and have the patience of  
22 Job ~~gold~~ to deal with some of these complex issues that others  
23 would want to solve this fiscal year.

24 The overall scope of the project has not changed.  
25 If I were backing away from my commitment to produce for

1 the American people an implementable action plan with  
2 specific recommendations, I could put out a nice little compendium of  
3 platitudes and declare a recess. This is what we've done  
4 with past energy policies, in my opinion, that have gone  
5 nowhere.

6 I am not about to do that nor would the President  
7 tolerate that. He wants a plan with specific action items  
8 for business and industry, federal agency officials and  
9 regulators, the Congress, state and local officials. We  
10 want to hold all players in the energy business accountable  
11 for progress in each of their action areas and expose them,  
12 frankly, to the American people as a whole.

13 Not everyone will be happy with the decisions we  
14 make. However, the American public will never be willing  
15 to support tough choices until they, themselves, can see  
16 the tradeoffs involved. It's very fascinating to watch and  
17 listen to some of those who merely criticize, down on what  
18 they're not up on, as I say.

19 So I would say work with us and judge us by what  
20 you see next year when we publish the first version of the  
21 National Energy Strategy. We certainly need your help in  
22 this interim critical period.

23 Of course, this is the first energy strategy. We  
24 hope to update this, certainly not more than biannually  
25 because that's a requirement on Capitol Hill, but



1 continually be involved in its improvement, cleaning up the  
2 database and building the National Energy Modeling System  
3 and coupling with all the best computer bases in the  
4 country, doing the kind of economic research necessary to  
5 get life cycle costs in the fuel systems with which the  
6 European community is now very much involved and is very  
7 much on our side in trying to come to grips with the total  
8 costing of these various items so we can level the playing  
9 field from an economic context even more.

10 Earlier this week, the President made some tough  
11 choices on the leasing of certain outer continental shelf  
12 cracks. These decisions follow a year of congressional  
13 activity which restricted OCS drilling for this fiscal  
14 year. From our analysis, it was likely that similar  
15 restrictions would be included by Congress and legislation  
16 for future years. As long as energy development is seen by  
17 the vast majority of the U.S. Congress and the American  
18 people merely as an environmentally degrading activity, so  
19 long as the energy production is not part of the tightly  
20 linked overall strategy that maximizes the efficiency of  
21 energy use and the environmentally sensitive development  
22 for resources, energy production, particularly production  
23 of fossil energy will lose every time in a head-to-head,  
24 one-on-one confrontation with the environment at least  
25 until the lights begin to go out. Then it will be too

1 late, and this is why a comprehensive energy strategy makes  
2 even more sense today than a year ago. I intend to rely  
3 heavily on advice from this council as we move forward in  
4 these tasks.

5 Six weeks ago, I announced the appointment of 40  
6 new National Petroleum Council members. In doing so, I  
7 look to enhance this council's voice in oil-related matters  
8 and enhance the representation of natural ~~national~~ gas interests.  
9 Rather than try to introduce each of the new members of the  
10 council individually, it would be of interest to me to ask  
11 you to stand, those new members, and I would like the rest  
12 of us to give them a round of applause.

13 (Applause)

14 I can't tell you how important it is to have your  
15 advice. I have many advisory boards. I'm consolidating,  
16 as you know, into one major one for a whole host of areas  
17 that will not step on the toes of this council, the full  
18 council. On the other hand, there is no more important  
19 time for you to give me your best shot at the public  
20 service but to answer some of these tough questions that  
21 we've got to answer, and, really, we have to address them  
22 in the next six months.

23 I'm asking the NPC today to perform two studies  
24 of critical interest to the Department of Energy. One is  
25 to analyze the potential for natural gas to make a larger

1 contribution not only to our nation's energy supply, but  
2 also to the President's environmental goals. For us to  
3 accurately assess the potential of natural gas to serve  
4 this nation's energy needs, we must understand better the  
5 barriers to greater use of natural gas.

6 DOE has begun an assessment of gas deliverability  
7 jointly with the Federal Energy Regulatory Commission. But  
8 we need your assistance in making this study comprehensive  
9 and accurate. It's a complex undertaking, but this council  
10 has the tradition of taking on complex projects.

11 I know, for example, that the record shows that  
12 in 1984, an NPC study on enhanced oil recovery brought  
13 about a wealth of new information on the nation's oil  
14 reservoirs, and from that effort came the oil recovery  
15 information system, the most extensive and detailed and  
16 useful data collection to date on the remaining oil  
17 resources in this country. It's this system that provides  
18 the analytical foundation for our revamped Federal Oil  
19 Research Program that the Assistant Secretary Gentile will  
20 describe to you here today.

21 The second study that I'm requesting deals with  
22 the U.S. refinery sector, which, as you well know, is  
23 facing unprecedented challenges. Clean air amendments will  
24 require billions of dollars to be invested in compliance  
25 equipment and new fuel production while new capacity is needed to

1 respond to increased demand.

2 What do the ever-growing volumes of petroleum  
3 product imports mean for our energy and environmental  
4 security? What about the export of refinery jobs and so  
5 forth?

6 I'm also pleased to see that action has begun on  
7 the previously commissioned study, a study on a proposed  
8 organizational structure for an oil-related national  
9 defense executive reserve, something comparable to units  
10 already in place for coal, natural gas and electricity  
11 generation.

12 Early in my term as Secretary, I addressed the  
13 conflict-of-interest and anti-trust concerns of the oil  
14 industry. I directed the Assistant Secretary for  
15 International Affairs and Energy Emergencies to work towards  
16 their resolution. The Department has worked closely with  
17 the appropriate congressional committees to obtain waivers  
18 for activated NDER's. While this relief has not yet been  
19 obtained, you have my commitment that DOE will continue to  
20 press the issue. I believe we have considerable  
21 receptivity to this concept on Capitol Hill.

22 So there's much more work to do, the Defense  
23 Executive Reserve, the Natural Gas study, the Oil Refinery  
24 study and on the National Energy Strategy. What we must  
25 provide to the American public is a template for managing

1 our energy affairs, a framework for overcoming the  
2 limitations imposed by geology, law and regulation, a  
3 framework for moving away from an energy situation which we  
4 are being piecemealed to death by the impositions of coal  
5 free zones, by dismembering fully built and licensed  
6 nuclear powerplants, by rushing to judgment on  
7 environmental actions, totally <sup>unfettered</sup> to any science or economic  
8 analysis.

9 I made a facetious comment the other day that I  
10 thought we should see that Congress passes a law to bar any  
11 legislative effort in <sup>the</sup> even number <sup>of</sup> years. Then I was  
12 accused of saying that that was towing the door for trying  
13 to bar legislation as well in the odd numbered years.  
14 There's some merit to the whole thing.

15 On June 14th, I made a speech to the Responsive  
16 Energy Technology Symposium and International Exhibition in  
17 San Diego. In that <sup>speech</sup> ~~spee~~, I outlined all the things the  
18 U.S. government and we, at the Department of Energy, are  
19 doing to address the potential for global climate change.  
20 I've made copies of this speech available here at the door  
21 for any of you that are interested.

22 In it, I point out that contrary to daily reports  
23 that the U.S. is using scientific uncertainty as an excuse  
24 to do nothing about global climate change. The list of our  
25 initiatives is impressive and extensive. These measures

1 range for pursuing cost-effective energy conservation and  
2 efficiency measures, to reducing ~~hydrochlorocarbons~~ <sup>chlorofluorocarbons</sup>  
3 (phonetic), to developing and commercializing alternative  
4 energy systems including clean fossil systems, to  
5 aggressive research to reduce the range of uncertainties  
6 associated with global climate change and many others, as  
7 you will see in this speech.

8 If this agenda sounds familiar to you, it should.  
9 The National Governors Association just released a proposed  
10 policy on global climate change that is virtually identical  
11 to the agenda I've just described already underway by the  
12 federal government. So I commend the NGA proposal and hope  
13 that it will be adopted by the governors at their annual  
14 meeting in late July in Mobile. It's a sensible approach.  
15 It's one we should listen to.

16 The actions of organizations like the National  
17 Governors Association are very important because there is  
18 no golden federal ~~way~~ <sup>panacea</sup>. We can produce a framework. But  
19 the implementation of that framework and ultimately the  
20 solution to many of our energy problems lies in the myriad  
21 ~~of~~ personal and collective decisions that we make as a  
22 nation of individuals. Local communities will have the  
23 power to deny a permit for ~~a~~ new port facilities or for new  
24 terminaling, storage capacity or for the construction of  
25 new pipelines. With this power, however, comes the basic

responsibility, the responsibility to <sup>live</sup> ~~leave~~ with the consequences of those decisions.

If the Northeast, for example, chooses not to have a refinery -- and as you all know, 11 attempts have been rejected by them over the past two decades -- then it is not the responsibility of the federal government to pay for a regional petroleum product reserve to be used when cold weather strikes in my opinion.

In this audience, I see a group of individuals, each with specific and unique expertise that collectively can help the government and ultimately the American people determine what makes sense and what doesn't, what our energy choices are and what the consequences of our energy choices will be.

So let me thank you once again for your dedicated work in the field of oil and gas, petroleum products and the like. Let me express again my sincere appreciation for your willingness to serve me in my capacity as Secretary of Energy and for your time that I know is extremely valuable to you, to take a real round turn and a half hitch, as we say in the Navy, on this issue now as we approach some critical decisions in the near future. You have impressive credentials here. You have people with great influence in our government <sup>and</sup> on Capitol Hill, and now is the time to pull out all the stops not for parochialism, but for a combined

1 consensus approach that can be sustained in this nation of  
2 individuals.

3 Thank you very much <sup>Lod</sup> for asking me here today, and  
4 I'll open myself up to questions <sup>for as long as you think appropriate</sup>.

5 (Applause)

6 CHAIRMAN COOK: Thank you, Secretary Watkins, for  
7 those thoughtful comments and for the thorough review that  
8 you and your staff are carrying forward in looking at all  
9 the issues that affect the energy in our country, and I can  
10 assure you that the council will continue their support and  
11 cooperation, and we will be referring the two requests that  
12 you've made to us to our agenda committee promptly and  
13 begin work shortly thereafter.

14 Now, if you'd like to ask the Secretary  
15 questions, we'll take some time for that.

16 MR. CALDER: Mr. Secretary, <sup>did</sup> I understand  
17 <sup>ly</sup> ~~correction~~ that after you have formulated your energy  
18 policy, that it is going to go to the President not as a  
19 recommendation, but as an option?

20 SECRETARY WATKINS: We are, as I say, winnowing  
21 down options now that basically we can deal with in  
22 analytic terms between now and the time we go to the  
23 President. We have built a matrix of options, and  
24 basically they come down to petroleum and electricity.

25 When you surround those issues, you surround the



1 gutsy issues that really are at stake in the first round of  
2 strategy in our opinion. We've discussed this at some  
3 length with the Economic Policy Council under which the  
4 inter-agency group is working. I discussed this personally  
5 with the hierarchy in the White House between the Chief of  
6 Staff and his other top advisers. We think we have a  
7 rational approach to this now that can put bounds on it so  
8 that we can really do something.

9 If we do not have the knowledge to make strong  
10 recommendations of very clear actions that we need to take  
11 in other areas, then we're going to have to make  
12 recommendations that we on the second go-around, say, the  
13 biannual update or even an annual update, that we focus our  
14 resources on those kind of analytic efforts so that  
15 eventually we build it back into the database something to  
16 be accepted by you all and by others in the private sector  
17 because you could tape the system and say, yes, we can  
18 understand baseline. We may come out with a different  
19 conclusion. But at least the database looks as good as it  
20 can be.

21 We're in petroleum and electricity basically as  
22 the two areas that we have to work in this area, and I  
23 think that what's going to happen out of these is we will  
24 have reasonable options that bound this problem, but don't  
25 allow us to go in with such specific recommendations that

1 were the President to take a position that was different,  
2 we would open him up to the political ~~battering~~<sup>battering</sup> by people who  
3 share the same scientific illiteracy as the rest of the  
4 nation is now being accused of having. I don't think we  
5 need that.

6 What we need to do is get in a range of options  
7 surrounding it which are reasonable bounds on that  
8 particular recommendation. We have Domestic Policy Council  
9 and Cabinet meetings, and we'll have some tough sessions as  
10 we did when preparing the Clean Air Bill and everything  
11 else that goes on in government. How that's shaken out in  
12 the internal effort to be an option to get in is obviously  
13 our business. We intend, as the President always does, to  
14 go through a round of last-minute listening. He has a  
15 tremendous amount of friends in this nation, and he  
16 listens, and he listens a lot. So we have a lot of work to  
17 do after the options are in. But, for the most part, we  
18 will have framed them in a way, I think, that is  
19 supportable.

20 So I wouldn't think that you would see sloppy  
21 options as are in the <sup>compendium of</sup> public comment. We put those in  
22 because we want to show the magnitude of the problem to the  
23 American people and how involved it is, and it isn't this  
24 simply<sup>e</sup> matter of just going after energy sources. We have  
25 to look at all of the environmental ramifications. We

1 certainly have to <sup>have the</sup> science, and we certainly got to  
2 do it economically. <sup>Because</sup> If we're going to be a player as a  
3 world leader and if we're going to help the developing  
4 countries who are not capable and if we're going to follow  
5 up on our democratic victory in Eastern Europe, then we've  
6 got to have some economic strength. <sup>And</sup> ~~The nonsense about~~  
7 premature taxing that goes <sup>against carbon and other things</sup> on is all very interesting. But  
8 it's not supportable by the science. No analytic work has  
9 been done economically on the issue, and we may be setting  
10 ourselves up for something, one, we won't <sup>follow</sup> ~~fall~~ through on,  
11 which doesn't make us very sensible as a world leader, and,  
12 two, we certainly don't want to do anything that would  
13 undermine our ability to continue to have the growth in the  
14 nation that I think our standard of living deserves and our  
15 people deserve.

16 So the recommendations are going to be clear  
17 enough, and inside those, the President will be able to  
18 select exactly what balance he wants across the board, and,  
19 hopefully, we'll be able to convince him of a path that  
20 levels the playing field, says all energy sources are  
21 essential to the nation, and here is what we've got to do  
22 to manage it and manage it sensibly, and we're better  
23 technologically than many people give us credit for. We  
24 ought to be able to solve a lot of these problems that are  
25 not technical problems. They are political problems.

1 Somehow we have to build back the credibility of all of  
 2 these energy sources as not being equivalent to assure  
 3 environmental problems for us, and ~~that~~ we're not in the  
 4 game to violate nature. We're in the game to protect  
 5 nature. I think we all want to do that and do it sensibly,  
 6 and I think we have the <sup>technical</sup> strength to do it if we're allowed  
 7 to put out a strategy before this year ends.

8 So I think we have a good chance to give him ~~ae~~  
 9 recommendation ~~that~~ he will clearly see within that your  
 10 solution. That's what we want to do. Hopefully, as we  
 11 work the problem in the back room in the final stages of  
 12 coming to grips with that, we'll be able to influence the  
 13 process to try to see that the playing field is level and  
 14 does not have biases in there that would undermine the very  
 15 credibility of the strategy. So that's what we're doing.

16 I don't think that's unreasonable.

17 a follow up question on the carbon tax or BTU tax before the options go to the President,

18 QUESTION: Mr. Secretary, do you think there is a  
 19 likelihood that a summit may adopt ~~---~~ some sort of (inaudible) tax?

20 SECRETARY WATKINS: You know the position that  
 21 we've taken on global climate change. We have not agreed  
 22 to date and target this, <sup>for</sup> the very reason I outlined earlier  
 23 in my address.

24 It's my hope that we would not rush to judgment  
 25 on that particular issue or it will become the National  
 Energy Strategy.

1 We have already projected that if somebody would  
2 impose a 20-percent <sup>CO<sub>2</sub></sup> tax by the year 2000 on us, our  
3 projections are that that will become the National Energy  
4 Strategy, and all this other thing is nonsense. Everything  
5 will pivot about that. Nothing else will matter. We'll  
6 try to optimize economics from that point of view, and  
7 we'll have the biggest mess on our hands in all other areas  
8 that we're trying to address. So I really think we have to  
9 be cautious right now.

10 First of all, we don't have scientific  
11 justification for the greenhouse gas global warming  
12 linkage. We do know <sup>the globe</sup> or we do believe, science believes,  
13 the globe is heating. That greenhouse gas proof still has  
14 to be determined, <sup>we have to then,</sup> and once we determine it, ~~we have to know~~  
15 it specifically enough to make the right decision at the  
16 national level. In the meantime, we're doing an awful lot  
17 of things to minimize the greenhouse gas generation and  
18 with the energy strategy focus on a lot of efficiencies and  
19 conservation issues and up-front planning that's fair  
20 planning. I think we have a chance to work our way through  
21 the next few years of trying to determine what these  
22 uncertainties are, and I don't know if we're given a chance  
23 to do that. I don't know why the United States is so  
24 criticized when it's doing more than all the other nations  
25 in the world combined in research, for example. You are

1 criticized for doing nothing. We would probably not do  
2 much differently tomorrow than we're doing today even if we  
3 were to set such a tax because we're already strained to  
4 the limit.

5 You've got a Clean Air Bill that's closely to \$25  
6 to \$30 billion a year. You've got that on top of an  
7 already Clean Air Bill that's probably worth at least \$60  
8 billion a year. So we're taxing the American people.  
9 Sure, we have a standard of living. But I haven't heard in  
10 this election year anybody who wants to give up one to 2.7  
11 cars per family. That's not one of the attractive features  
12 that I hear out there that <sup>for politicizing</sup> ~~are political~~.

13 So I say if we can hold off, we ought to hold off  
14 a bit before we set those kinds of taxes.

15 Now, I am not the budgeteer, and I don't have the  
16 responsibility to look at all aspects of the new bipartisan  
17 agreement to deal with the budget deficit, which is very  
18 significant and aggravated by the S and L situation. So  
19 there may have to be some kind of revenue raising system.  
20 If it comes in the terms of BTU tax or an energy tax  
21 because energy crises by many economists are said to be too  
22 low in this country compared to the rest of the world, then  
23 maybe that has to come. I don't know. But I would hope  
24 that we'd be able to have some mechanism to deal with it  
25 when it came, and we don't have that mechanism today.

1 Dr. Gonzalez: QUESTION: Mr. Secretary, will the National  
2 Energy Strategy report address the importance of energy and  
3 the remarkable progress achieved by the people of the  
4 United States and in improving our <sup>total</sup> environment?

5 I have been involved as an economist in the  
6 economic policy since I was a consultant in 1954 to the  
7 Cabinet Task Force on Energy, and I've been involved in  
8 many universities on this, and I want to point out that  
9 energy is the key to human productivity. It is also  
10 essential to deal with the climate problems of the world  
11 being too hot and too cold, and we need a lot of energy in  
12 order to provide for a total human environment. It's not  
13 just the ecology: it's the total human environment. It's  
14 all the things <sup>we enjoy</sup>. It is recreation, culture, leisure,  
15 education. The world was never a Garden of Eden. There  
16 are a lot of things that cause environmental problems  
17 including volcanic eruptions that create a lot of damage to  
18 the air.

19 I'd like to point out that I was involved in a  
20 number of conferences that have resulted in books. One is  
21 on "Energy and the Environment: A Risk Benefit Analysis,"  
22 published in 1950 and 1976, which has two of my lectures at  
23 Stanford University as the visiting professor on energy and  
24 human welfare and energy and the environment, and another  
25 conference that the University of Texas sponsored with the

1 resources for the future here in Washington on improving  
2 energy security in 1984. That also deals with the  
3 important questions.

4 SECRETARY WATKINS: You make <sup>Simple the answer</sup> the answer, to your  
5 earlier question as yes. But nobody listens. Nobody  
6 listens to the fact that prior to 1987, for about 10 or 15  
7 years, we had a decoupled gross national product that was  
8 going up significantly, and energy growth was only about  
9 one-fifth of that. That's a credit to the system of the  
10 United States being responsive. We're going to have to hit  
11 it again, a hard lick, and go the next round.

12 We have said all this. We have talked about the  
13 way the United States has dealt with this issue with  
14 American industry and business <sup>has risen to the occasion</sup>. It never gets printed. I  
15 don't think it's being printed anymore now. Nobody is  
16 talking about that.

17 We're being pressured by a number of world  
18 organizations and nations, other nations, to set a date and  
19 a target and a tax and a number on it, and that's the only  
20 difference except we're doing a lot more than they are, and  
21 they haven't done the analysis either. So why are we  
22 getting beaten over the head for it? I don't know.

23 But to go back now and say how wonderful we are  
24 simply is not news worthy. I can just tell you it doesn't  
25 get any <sup>press</sup> credit. Will it be in our documents? Yes. You'll



1 see it all in the documents. The documents are very clear  
2 about that. As you track the total energy in quad, there  
3 is a function of time. This is about 1973. But you will  
4 see in the presentation, you will see it very graphically.  
5 It's an impressive response.

6 On the other hand, we're growing now  
7 significantly, and energy growth has been for a few years  
8 twice the GNP. So we have to watch what we're doing here  
9 now and take another turn on ourselves, and I think that's  
10 what we're about to do. Certainly, we should get credit  
11 for the past. We are a fine nation. We are sensitive to  
12 the environment. We've done a good job. Look at what  
13 we're doing now in clean air after 13 years of inability of  
14 the Congress to do anything. The President is the one that  
15 made the move. Yet he's being criticized for that for some  
16 reason.

17 You're going to have to help out and jump into  
18 the act to say, "Wait a minute. We've done a lot. We're  
19 doing a lot, and we're proud of our record. We're not  
20 going to take it on the chin." There are a lot that aren't  
21 doing anywhere near what we're doing and yet complaining to  
22 us that somehow we're the laggards in the world.

23 *Pat Taylor from the audience,*  
*Mr. Taylor:* QUESTION: Mr. Secretary, ^will your options that  
24 you submit to the President contain recommendations for ac  
25 specific -- incentives to drill domestically?

1 SECRETARY WATKINS: Yes. We have to have  
2 incentives in there. We are having one of the hearings, as  
3 I mentioned. It is on economic strategy, and we're going  
4 to bring in some of the best people in the nation that we  
5 can ~~too~~ really go at this thing, and we're going to let it  
6 all hang out. We want to know about gasoline tax. We want  
7 to know about oil subsidies. <sup>import fees</sup> Let's hear it all.

8 We get letters all the time. ~~There are~~ people  
9 sweeping into my office in the dark of the night with black  
10 capes on whispering <sup>about one thing or another</sup> in my ear on what we should do. There  
11 are various kinds of floors and subsidies and one thing or  
12 another. So we'll let it all come out in one of our  
13 hearings, and we'll see what the debris is from that  
14 particular bend.

15 But the answer is, yes, we have to do that. We  
16 have to look at what we're doing now. After all, we have a  
17 subsidy now in ethanol and recently determined 60 cents per  
18 gallon ETVE equivalent. That expires. It has a sunset  
19 feature on it. I think in a couple of years we have to  
20 address those things. We can't ignore them. Once you open  
21 the door on something like that, you have to open up the  
22 door wide to all other issues.

23 So this is going to be one of the toughest areas,  
24 and one of the toughest areas that really is driving us to  
25 options. The worst thing you can do is for us to come down

1 on a recommendation, say, on November the 1st. So we want  
2 to hold our recommendations off until we work it out later  
3 because there are too many complicating factors. Frankly,  
4 a set of options lets us listen again for the last time to  
5 the American people, and I think that's helpful and  
6 healthy. The President needs to hear that. He needs to  
7 hear from you, and I'm sure many of you who have seen him,  
8 he's the most incredible human beings. He knows more  
9 people in this country than anybody else personally. He  
10 looks at you, and he talks to you, and he's really talking  
11 to you because he really knows you. So he's going to do  
12 ~~this~~ <sup>that</sup>. This gives him a chance to listen. Don't take that  
13 one or take this one or go down the middle to that one,  
14 divide that one by two, Mr. President. That's your best  
15 bet. That's the kind of thing that is very helpful to him.  
as he goes in the final package.

16 If this is going to be a sustained program, it's  
17 going to be a one-time shot, forget it. It won't do  
18 anything. It won't get anywhere. So it's got to be a  
19 sustaining document. And that's where our hand is.

20 CHAIRMAN COOK: One more.

21 Mr. Radzewicz: QUESTION: Mr. Secretary, <sup>have you set dates for the</sup> ~~--~~ (inaudible). <sup>hearings?</sup>

22 SECRETARY WATKINS: Yes. I don't have it with  
23 me. We do have it. I believe it's late July, around the  
24 20th. I may be wrong about that date. It's going to be in  
25 the latter part of July. I think it's the 20th of July.

CHAIRMAN COOK: He had his hand up first.

1  
2 Mr. Upham: QUESTION: Mr. Secretary, one of the things that  
3 is restricting us and will restrict us, and not only in our  
4 area but in many areas, is the memorandum <sup>of agreement between</sup> ~~appointing~~ the  
5 EPA and the agency, the Corps of Engineers. This <sup>is</sup> as you  
6 mentioned, was rushing to achieve an environmental goal  
7 without regard to the consequences, and I'm wondering if  
8 something that specific or if that could be revisited in  
9 this package.

10 SECRETARY WATKINS: We're going to have to  
11 revisit any regulatory areas to the efficient employment of  
12 our energy resources. So there's no hold barred, and there  
13 are a number of those. We've got some independent parties  
14 and producers. We've got it from independents in oil.  
15 We've got it for a whole host of sources, from all the  
16 hydro people on the one side. We have it on the  
17 environmental side. We've heard some very strong  
18 statements made for our hearing. We've had 400 witnesses  
19 and 2,000 documents submitted. So we have some very strong  
20 indications that we've gone too far in some areas, and that  
21 pendulum is going to swing too far over and is not invalid  
22 for what it ought to be. So the answer is yes. We will  
23 take regulatory barriers, and if you've looked at the  
24 interim report and find that it is inadequate in that  
25 particular <sup>area</sup> ~~or~~ that we've missed the point, it didn't

1 include the kind of information you have in mind, then you  
2 should send it to us.

3 The NPC is a good vehicle. We like the letters  
4 that come in and go in to what I call the critical action  
5 list, and there's about 10 that come in a day. These are  
6 Congress and the President or anybody else that gets high  
7 on the list. When he speaks, I listen. If you can work it  
8 through the council or work it through members here and get  
9 it to me through the body, then that's going to be  
10 well-received and go into the database as one of the  
11 documents that we need to rely on as we come to our final  
12 decision.

13 Thanks very much for all your good work. Keep at  
14 it with us.

15 (Applause)

16 CHAIRMAN COOK: Thank you very much again, Mr.  
17 Secretary, for being with us and for dealing with all these  
18 complex issues that face our nation.

19 As you know, the council has undertaken a status  
20 report on Emergency Preparedness requested by the  
21 Department of Energy, and Bob McClements, the Chairman of  
22 that committee will now present a report on the status of  
23 the work and the schedule for its completion.

24 MR. McCLEMENTS: Thank you, Lod.

25 Ladies and gentlemen, I'm pleased this morning to

1 present to you a status report on our Emergency  
2 Preparedness ~~Study Task Force~~.

3 As the Chairman noted, the Secretary of Energy  
4 has requested, and the National Petroleum Council has  
5 agreed, that a study be undertaken on the use of ~~the~~ e  
6 petroleum industry personnel during emergencies. In the  
7 study request, Secretary Watkins asked the NPC to -- and I  
8 quote -- "recommend an organizational structure of an  
9 oil-related national <sup>Defense</sup> ~~event~~ executive reserved or its  
10 equivalent for use in a severe national <sup>Security</sup> ~~emergency~~."

11 Admiral Watkins also asked the council to -- and again I  
12 quote -- "identify a national defense executive reserve  
13 staffing mechanism that would be supported by industry  
14 companies."

15 The Secretary's complete request letter is in the  
16 study paper that's in your packets in front of you this  
17 morning. This study request was reviewed and recommended  
18 for undertaking by the NPC Agenda Committee. In explaining  
19 the request to the Agenda Committee, the Secretary also  
20 expressed the need for a high-level policy group to advise  
21 him during severe national security emergencies on  
22 potential activation of the National Defense Executive  
23 Reserve.

24 He also envisioned this group advising him in  
25 energy emergencies of a lesser nature, when market

1 mechanisms <sup>the</sup>and <sup>is</sup>strategic <sup>is</sup>petroleum <sup>is</sup>reserve would be relied  
2 upon. So what we're really talking about here is a study,  
3 a recommendation, which really has four elements to it: an  
4 organizational structure for use in severe national  
5 security emergencies, not only the organizational  
6 structure, but a mechanism for staffing that organizational  
7 structure that the industry supports; and then a high level  
8 policy group to advise him when to activate the National  
9 Defense Executive Reserve; and also the ability of this  
10 high level policy group to advise him in lesser  
11 emergencies. That's the charge.

12 For your background, I will briefly review the  
13 history of the National Defense Executive Reserve. Under  
14 various laws including the National Security Act of 1947  
15 and the Defense Production Act of 1950, the President has  
16 delegated <sup>to</sup>~~that~~ the Federal Emergency Management Agency,  
17 FEMA, his authority to establish priorities and allocations  
18 for materials and facilities as well as to use industry  
19 experts for emergency functions.

20 The President has also assigned specific  
21 emergency planning and preparedness responsibilities to the  
22 various federal departments and agencies, and has created  
23 the National Defense Executive Reserve as authorized by the  
24 Defense Production Act.

25 The National Defense Executive Reserve -- and

1 it's referred to by its acronym NDER -- was formally  
2 established in 1956. Currently, there are NDER units in 13  
3 departments and agencies with over 2,000 civilian  
4 reservists from a broad range of industries.

5 As a result of <sup>a</sup>the Presidential directive, FEMA  
6 is actively revitalizing NDER recruitment. FEMA's  
7 long-term goal is 10,000 individuals. The Department of  
8 Energy currently has three NDER units: electric power,  
9 coal and natural gas. The primary purpose of these units  
10 is to augment DOE management with industry volunteers  
11 during a national security emergency.

12 When activated by the President in <sup>national</sup>~~natural~~  
13 security emergencies, these reservists would assess the  
14 local, regional and national energy supply situations,  
15 assess damage, <sup>and repair</sup>~~prepare~~ potential for energy facilities,  
16 coordinate local, regional and national energy supply <sup>and</sup>~~in~~  
17 operating programs to meet essential needs, develop plans  
18 to restore facilities and energy supplies <sup>needed</sup> locally,  
19 regionally and indeed nationally, and, finally, to provide  
20 information interchange between the government and industry  
21 at all levels.

22 Since the early 1980's, DOE has sought petroleum  
23 industry participation in the ~~Executive~~ Reserve, but  
24 ~~anti-trust~~ and conflict-of-interest concerns have been  
25 major impediments. Through legislative initiatives and



1 this study, the Department of Energy hopes to begin the  
2 process of creating an oil-related NDER unit.

3 To undertake this current study, the council  
4 established the Committee on Emergency Preparedness. I'm  
5 honored to have as my government co chairman, John Easton,  
6 the Assistant Secretary for International Affairs and  
7 Energy Emergencies at DOE.

8 Our committee held its organizational meeting  
9 yesterday, and as one of its first acts established a ~~the~~  
10 subcommittee under the direction of Jim Nolan of the Sun  
11 Company. The subcommittee has a broad membership  
12 representing various size companies, geographic regions and  
13 functions within companies. The committee and subcommittee  
14 rosters are also attached to the study paper in front of  
15 you.

16 The committee with the assistance of the  
17 subcommittee will analyze three distinct methods of using  
18 industry personnel in emergencies depending on the time,  
19 nature and severity of the actual emergency. The first  
20 ~~method is~~ designated company contacts for use particularly  
21 in regional ~~and in~~ smaller supply disruptions. This would involve key  
22 individuals designated by companies to be contacted by DOE  
23 officials for informal one-on-one discussions on the  
24 severity of a disruption and what correction actions are  
25 underway.

1           The second method is a higher level policy  
2 advisory group for use in larger supply disruptions and  
3 indeed in national security emergencies. The NPC, a  
4 committee <sup>there of</sup> ~~of the NPC~~ or a similar advisory committee would  
5 provide the Secretary of Energy with real-time practical  
6 consensus advice from industry leaders on the severity of  
7 the emergency and what actions should be taken by  
8 government. This group also could address major long-term  
9 general concerns prior to any emergency.

10           The third method is an oil-related NDER for a use  
11 only in severe national security emergencies such as  
12 military mobilization or indeed war. A simple and basic  
13 structure of key operational individuals from the companies  
14 would be available for activation to temporary government  
15 service to assist in managing and distributing oil supplies  
16 during such a national emergency. These individuals would  
17 also be available for brief annual training sessions.

18           The study request notes the potential legal  
19 constraints on executive reservists and states that efforts  
20 are ongoing to legislatively remedy the situation.

21           While the letter suggests that for the purposes  
22 of this study the council <sup>assumed</sup> that such legal issues  
23 are satisfactorily resolved, the study will at minimum  
24 address the status of the legal issues in order to  
25 underline the importance of the Administrator's <sup>1015</sup> efforts.

1 This NPC study will develop clear and concise  
2 recommendations on the mission, organization and rules of  
3 operation for each of the three vehicles I described for  
4 government ~~and~~ industry cooperation during emergencies.

5 I believe the major challenge for this study is  
6 to develop recommendations on the NDER that industry will  
7 support, approve and staff. We should be fully aware of  
8 the industry commitment that will be implicit in the NPC's  
9 ultimate adoption of <sup>this</sup> ~~the~~ committee's final report. We  
10 should also recognize that while the world is enjoying a  
11 significant reduction in international tensions, emergency  
12 preparedness planning is still very much a legitimate  
13 function of government and the interest of industry.

14 Yes, indeed, there is the reduction in  
15 international tensions among the super powers. I'm not  
16 sure we will characterize the situation in the ~~Mid~~<sup>d</sup> East  
17 with the same terms.

18 As for our schedule, the ~~committee~~ has set a  
19 timetable for this study that will result in a final report  
20 for your consideration by early next year. I look forward  
21 to presenting it to you at our first meeting in 1991.

22 Mr. Chairman, that concludes my report.

23 (Applause)

24 CHAIRMAN COOK: Thank you, Bob.

25 VOICE: Could I make a comment? <sup>about the recent report -</sup>  
(inaudible)

CHAIRMAN COOK: Yes.

VOICE: I would hope that our study would take into account the state government role<sup>in</sup> (inaudible) I recall the one in 1979. (inaudible)

CHAIRMAN COOK: Good point.

Earlier, I introduced Bob Gentile, who is the Assistant Secretary for Fossil Energy, and I believe this is maybe the first time you've attended the council meeting, and I'd like to call on Bob for any remarks he'd like to make.

Let's give him another welcome.

(Applause)

ASSISTANT SECRETARY GENTILE: Thank you, Lod.

It's a pleasure for me to join you all here today and especially to welcome the new members and the Secretary.

I know it's a new experience for you. It's a new experience for me. I've been a member of the Coal Council. This organization is a little different, a little more history, a little <sup>better</sup> ~~bit more~~ structured. I'm certainly looking forward to working with this council.

The Secretary said I would be mentioning something to you about where we're heading with oil and gas in the Department. I'd like to take a few moments here to talk about some of those issues.

We've refocussed our Oil and <sup>Research</sup> Gas Program.

Perhaps I should say we are refocussing the program.  
Fiscal Year 1990 at the beginning of the change, <sup>and</sup> to do the  
flexibility given to us by Congress, we're beginning to  
shift our funding priorities. Fiscal Year '91, <sup>will</sup> ~~we'll~~  
continue that shift. By Fiscal 1992, our Oil and Gas  
Program will fully reflect the changes in the priorities  
that I'm going to describe.

Let me also <sup>ensure</sup> ~~make sure~~ that everyone recognizes  
that we're talking about oil and gas recovery technology,  
not <sup>end-use</sup> ~~in-use~~ technology. We have <sup>end-use</sup> ~~in-use~~ research going on,  
both <sup>in</sup> ~~with~~ my <sup>Shop</sup> ~~Secretary~~ and <sup>in</sup> ~~with~~ the Energy Conservation  
Secretary. But what I'm describing today is strictly  
restricted to the production of hydrocarbons. Simply put,  
as many of you are aware, we're changing our oil and gas  
and research strategy to place a greater emphasis on the  
near-term objectives.

It doesn't mean that we're eliminating the  
longer-term research and more basic efforts. There is  
still our program. What it does signal is our recognition  
that especially the oil sector we don't begin placing a  
greater focus on near-term problems. There may not be much  
of an industry left in this country to benefit from the  
longer-term research after the turn of the century.

Let me explain. Over the last couple of years,

1 our staff has undertaken a major assessment of the  
2 principal oil reservoirs in the United States representing  
3 over 75 percent of the remaining resource, the lower 48.  
4 They looked both at well reports and reservoir-by-reservoir  
5 decline curves. They projected the remaining oil in the  
6 reservoirs reaching their economic limit over time under  
7 different pricing scenarios.

8 What they found is what many of you have been  
9 telling us for quite sometime, an increasing rate of oil  
10 field abandonments is a serious and very near-term problem  
11 for this country.

12 We entered the decade of the 1980's with about 30  
13 percent of our known lower-48 oil resource in abandoned  
14 fields. We studied this further. <sup>If</sup> The oil prices stay  
15 where they are, and if new technologies are delayed, we  
16 project as much as 65 percent of the remaining lower-48 oil  
17 could be abandoned in abandoned zones by 1995. More than  
18 75 percent would be abandoned zones by the turn of the  
19 century or right after the first of the century.

20 Now, that 75 percent at the beginning of the  
21 century is with today's prices scenario. Even when we look  
22 at the \$30-a-barrel pricing scenario, we could still have  
23 an abandonment rate that would mean that nearly 60 percent  
24 of the lower-48 resource would be abandoned by the year  
25 2000. Now, these are disturbing numbers not only for your

1 industry, but for the nation, and the Admiral has made it  
2 clear that this is not something that we can sit back with  
3 any longer, and we need to get involved in the process.

4 Last month, we sent to Congress a strategy and a  
5 plan for ~~restricting~~ <sup>restructuring</sup> the Federal Oil Research Program  
6 primarily because of the well abandonment problem. Five  
7 years ago, about 80 percent of the government's petroleum  
8 research funds went to improve basic knowledge, long-term  
9 research. About 20 percent of the budget was going to  
10 solve problems in the field, more near-term problems.

11 We're proposing in our strategy to completely  
12 reverse that. We're looking at spending upward of 75  
13 percent of our R and D funds over the next decade to  
14 develop better reservoir knowledge and better recovery  
15 technologies.

16 In the near term, we have two very specific  
17 objectives. First, it is to develop with industry a much  
18 more thorough database with the characteristics of major  
19 reservoir types. Second, it is to identify the reservoirs  
20 that have the highest oil potential <sup>while</sup> ~~and~~ at the same time  
21 <sup>face</sup> ~~base~~ the highest risk of abandonment.

22 We believe that we can categorize the bulk of the  
23 nation's reservoirs into classes with common geological  
24 characteristics and to prioritize those classes with  
25 production potential and abandonment risk. We've

1 essentially done that for three states, Texas, Oklahoma and  
2 New Mexico, where state initiatives gave us a good starting  
3 point. Our task is now to expand that coverage.

4 By October of this year, we will lay out to the  
5 database most of the lower-48 on-shore resource with the  
6 exception of Appalachia. The Appalachia resource will be  
7 classified and assessed <sup>by</sup> in April of '91, and a final step  
8 will be to add the Appalachian resource and the Alaskan and  
9 ~~the~~ <sup>reservoirs</sup> offshore ~~and~~ to have a full U.S. oil resource  
10 classified by October of 1992.

11 We further anticipate holding technical meetings  
12 in the field associated with each high priority reservoir  
13 class. The success of these meetings will depend on the  
14 response we get from both industry and the states. We will  
15 be looking to each one of you for helping us in that and to  
16 support these meetings. We think it's critical as we move  
17 forward to these high priority classes and reservoirs.

18 These meetings, hopefully, will tell us what the  
19 problems are in the high-risk reservoirs and also give us  
20 some direction on how to prolong <sup>their</sup> our life. Is <sup>in-fill</sup> ~~in-field~~  
21 drilling a practical solution? Does gas injection show its  
22 potential? Should operators be considering <sup>water flooding</sup> ~~wire plug~~  
23 techniques? Is there insufficient field experience to give  
24 us these kinds of judgments? Should we be doing more in  
25 the field to determine demonstrations? These are the types



1 of questions we're going to be asking.

2 We expect the <sup>end</sup> products of this near-term activity  
3 to be packaged in such a way that it can be transferred to  
4 the <sup>operator in the</sup> ~~operated~~ field, both the majors and the independents,  
5 but clearly with an emphasis given to the independents.  
6 The package will likely be made up of recommended  
7 strategies, perhaps in computer software, perhaps some  
8 options for new technologies, instrumentation, <sup>S</sup>ensors,  
9 advanced diagnostics, tools that were used in other fields  
10 and in other sectors, quite honestly, that can have  
11 applicability in these fields.

12 Coupled with that, we will package an active  
13 technology transfer effort to make operators aware and to  
14 boost confidence <sup>in its</sup> ~~and~~ potential benefits. It's something  
15 perhaps like in the Bureau of Mines in the 1950's when they  
16 introduced water <sup>in its</sup> ~~and~~ flooding technology in the field.

17 Our refocused <sup>in its</sup> ~~and~~ program clearly has benefit for both  
18 major and independents. But we recognize that the  
19 technology transfer mechanism <sup>may</sup> ~~could be~~ fundamentally  
20 different for each, particularly in working with  
21 independents. We'll be working largely with state  
22 agencies, regional associations, other service  
23 organizations, consultants, et cetera.

24 Also, while the focus of the near-term element of  
25 our program is clearly on the discovered resource, we

1 believe that what we learn <sup>and</sup> in the technology that we  
2 develop will have equal or greater potential in future  
3 discoveries as well. If we're successful in the near term  
4 between now and 1995, and hopefully we will <sup>have bought</sup> ~~abide~~ the time  
5 to allow some of the more advanced recovery technologies to  
6 mature. These will be the processes that go beyond simply  
7 maintaining access. They will be those processes that can  
8 maximize recovery, and maximizing recovery, therefore,  
9 becomes our mid-term goal. It's only achievable if our  
10 near-term initiatives are successful.

11 As I said, all of this remains a program of  
12 longer range and more fundamental research. We're going to  
13 continue the longer-range research. It's still important.  
14 But it's less urgent than our near-term program.

15 Turning to natural gas. The natural gas resource  
16 is also an important aspect of our newly focussed  
17 refocussed program. But here the urgency is different and  
18 <sup>too</sup> ~~so to~~ are the needs. The most important element of the  
19 revised gas strategy is to understand better our gas  
20 resource base.

21 As the Secretary said, we are looking towards  
22 building something that looks like <sup>a TORIS</sup> ~~the TORIS~~ system <sup>for gas</sup> ~~that~~ was  
23 built for oil and put in it whatever information we have  
24 and whatever improvements in terms of analytical capability  
25 that we can build in. We hope to consolidate existing

1 databases and begin filling in the gaps as soon as  
2 In other words, bringing together a compendium of  
possible gas "atlases."

3 This will be the foundation for identifying where  
4 additional extraction research is needed. The Gas Research  
5 Institute, their effort is a starting point. They've  
6 undertaken a rather complete and have started a very good  
7 effort in that regard. But we need to hear more about the  
8 data, where we can get more data, and we need to look at  
9 the accuracy of the data, not what the GRI has done, but as  
10 we're bringing new data in. Ultimately, as we move towards  
11 secondary gas recovery and unconventional gas production,  
12 the accuracy of the resource data and the models that we  
13 use will become more and more important.

14 There's little doubt that we have our work cut  
15 out for us. But the Admiral has been adamant ~~to~~ whether  
16 it's developing a National Energy Strategy or to put in  
17 that strategy to deal with oil and gas. The program must  
18 be developed in fashion through public input and having the  
19 public involved largely in our process, and that means  
20 having you involved in our process.

21 I believe that we've met the Secretary's mandate  
22 in creating an oil and gas strategy. It's been fashioned  
23 from industry input, and it's been discussed in public  
24 dialogue and with industry several times. We think that we  
25 have the <sup>support of</sup> ~~important~~ key players in the industry, and we

1 think that the response on Capitol Hill with Congress has  
2 also been favorable, and the key players there will also  
3 support us.

4 There is always a risk in setting a near-term  
5 goal, and that risk is that you may be around long enough  
6 to be held accountable. I can assure you that the  
7 leadership of the Department of Energy is willing to take  
8 that risk, and we think we're on the right track. We know  
9 that we're setting short-term objectives, and we're willing  
10 to accept the consequences of that.

11 As I told the Interstate Oil <sup>Compact</sup> Commission last  
12 week, I'm convinced that the future of the United States  
13 and the U.S. oil industry will not likely be determined by  
14 how much new oil <sup>or gas</sup> we discover, but rather how creative and  
15 how inventive we are in getting out what is already known.

16 I look forward to working with Lod and Marshall  
17 and each of you in carrying out the objectives of the Oil  
18 and Gas Program, and I also looking forward to working with  
19 you all as the federal designated official for this  
20 council.

21 I applaud your work. Historically, you've done  
22 very good work. You've been very supportive, not only to  
23 the Department of Energy, but to the country, and the work  
24 needs to continue.

25 Thank you very much.

(Applause)

Just a comment here, I have here with me a speech that the Secretary mentioned on global climate change. I will be leaving it with you.

Also, the NES hearings are July 6th. The issues of public health will be held at the Naval Medical Center in Bethesda on July 20th. Energy and Pricing in Washington D.C., no location scheduled yet.

CHAIRMAN COOK: Bob said he'd take a couple of questions, if any of you have anything else on your mind you'd like to raise with him.

Yes. Do you have a date yet for the meeting that you are going to schedule concerning secondary and tertiary recovery?

Mr. Vetter: Question: ASSISTANT SECRETARY GENTILE: What we're going to be doing as we identify the priority reservoir classes, we will then schedule meetings in all of those classes. So we're in the process of doing that right now. We're just getting this thing checked off. We delivered this to Congress. It's been about two months now. So we're now just setting up.

Yes.

Mr. Calder: QUESTION: If we have a project that <sup>we think</sup> you might consider <sup>how do we</sup> to bring it to your attention?--

ASSISTANT SECRETARY GENTILE: In terms of a project <sup>and</sup> an idea, it depends. If it's a project, it would come into us via of what's called an unsolicited

1 proposal unless it falls within one of the project areas  
2 that we're going out soliciting proposals on. So if it  
3 come in to us via the mechanism known as an unsolicited  
4 proposal, if you'd like some information on that, one of my  
5 staff will give you some information on that.

6 If you're talking about ideas in terms of where  
7 you think we need to be going, in terms of strategy or  
8 planning or policy, come in and see me.

9 CHAIRMAN COOK: Anybody else?

10 Thank you again -- oh, one more.

11 Mr. Cruikshank QUESTION: Just a comment. In looking at the  
12 data that the Department of Energy has put out on projected  
13 domestic production of oil, I note I have an agreement with  
14 the projection through about 1995, and then from 1995 to  
15 2000 they chose the production level stabilizing, and I  
16 have a little trouble in understanding that, particularly  
17 with the Alaskan decline going on and so forth. I would  
18 just caution as we look at these database. I personally  
19 have some reservations about the accuracy of the  
20 longer-range projection on our domestic production.

21 ASSISTANT SECRETARY GENTILE: It's clear. I was  
22 having this conversation with Bill Fisher yesterday. It's  
23 clear that as we load data, we have to go through some sort  
24 of scrubbing procedure. I'm a little bit concerned about  
25 that. And I am very concerned <sup>as</sup> I stated <sup>that</sup> as we build a gas

1 database, that we build it not only to the best analytical  
2 in terms of the system, but also the best data that we can  
3 gather in terms of scrubbing that data.

4 There is a concern about some of the oil data.  
5 We know that some of that data has a better reliability  
6 characteristic than other data. We need to be looking at  
7 that, and I agree with you.

8 Thank you.

9 CHAIRMAN COOK: Thank you, Bob. We look forward  
10 to working with you.

11 Our next item on the agenda is a report from the  
12 Finance Committee. Substituting for its Chairman, John  
13 Hall, to give that report is Frank McPherson.

14 Frank?

15 MR. MCPHERSON: Thank you, Mr. Chairman. Ladies  
16 and gentlemen, the Finance Committee met last week to  
17 review the financial status of the council. We reviewed  
18 the calendar year 1989 audit report with Representatives  
19 Ernest and Young, the council's independent outside  
20 auditors, and I'm pleased to report to you the financial  
21 position. The council is strong, and our accounting  
22 controls and procedures received high marks.

23 As you may recall, the council has improved the  
24 calendar year 1990 budget in the amount of \$1,830,000,  
25 which provided funds to complete the Energy Preparedness

1 Study that Bob McClements reported on earlier, and  
2 providing the council <sup>approves</sup> to begin work on the studies that the  
3 Secretary discussed this morning.

4 After reviewing expenditures for the first five  
5 months of 1990, we believe that this budget is appropriate  
6 and are not recommending any changes.

7 We then discussed the level of contributions for  
8 the period of July 1, 1990 to June 30th, 1991 to support  
9 this budget and recommend that individual member  
10 contributions be the same as last year with such other  
11 funds as maybe required taking from the council's  
12 contingency reserve.

13 Finally, the committee recommends that Ernest and  
14 Young continue as our independent public accountants to  
15 audit our calendar year 1990 financial statements.

16 Mr. Chairman, that completes our report. I move  
17 this report of the Finance Committee be adopted by the  
18 council.

19 CHAIRMAN COOK: All in favor?

20 (Chorus of "ayes")

21 Opposed?

22 (No response)

23 Thank you.

24 You new members that are just authorized being  
25 done under our procedure, you'll be hearing from us



1       shortly.

2               The next report committee, our report to the  
3       Nominating Committee, as some of you may know, Collis  
4       Chandler, who chairs that committee, is recovering from  
5       surgery, hip surgery, I believe, and as far as I know, he's  
6       doing well. In Collis' absence, Frank Pitts will present  
7       the committee's report.

8               MR. PITTS: Mr. Chairman, the Nominating  
9       Committee of the National Petroleum Council proposes the  
10      following nominations for the officers and for the Chairman  
11      and members of the Agenda and Appointment Committees of the  
12      council.

13              NPC Chairman Lod Cook, Vice Chairman Ray Hunt,  
14      for the Agenda Committee, the nominations are as follows:  
15      Bill Carl, Collis Chandler, Ken Derr, Bill Fisher, Ken  
16      Blay, Elwin Larson, John Miller, Dick Morrow, Larry Rawl,  
17      Pete Silas and Frank McPherson serving as Chairman.

18              For the Appointment Committee, the nominations  
19      are as follows: John Croom, Tom <sup>W</sup>Crookshank, Bob  
20      Hauptfuhrer, A. V. Jones, Dino McCandros, Bobby Parker,  
21      Frank Richardson, Dick Stegemeier, Joe Williams, Irene  
22      Wischer and Bob McClements serving as Chairman.

23              Mr. Chairman, this completes the report of the  
24      Nominating Committee, and I move that the council elect the  
25      following foregoing for 1990.

1 Thank you.

2 CHAIRMAN COOK: All in favor?

3 (Chorus of "ayes")

4 Opposed?

5 (No response)

6 Thank you very much.

7 I'm honored to serve as your chairman for another  
8 year, and I'm sure that Ray and the others that were  
9 elected feel the same way. We look forward to a busier  
10 year this next one than we've had the previous, and it  
11 looks very interesting and exciting.

12 In that connection, you will recall the Secretary  
13 mentioned the two studies that he's asked us to complete,  
14 the National Gas Study and Refining Study. For those of  
15 you who would be interesting on serving on those activities  
16 and those study groups, let Marshall know, and ~~we're~~ <sup>we'll be</sup>  
17 <sup>glad</sup> ~~prepared~~ to include you in that work.

18 We regret that we had to give you rather short  
19 notice for this meeting. But it depends a great deal on  
20 the availability of individuals and also the other kinds of  
21 assignments that we were working on. We will try to give  
22 you a little more advanced notice for the meeting this  
23 Fall, subject to some extent to the work being done by the  
24 committees and the status that they have attained at that  
25 point. So we'll have something useful to present to you.

1 This is the end of our formal agenda this  
2 morning. Do any of the council members have any other  
3 business that they'd like to raise at this time?

4 Yes.

5 MR. CALDER: Mr. Chairman. Bruce Calder.

6 I want to commend you and the Secretary of Energy  
7 for expanding the <sup>Council</sup> ~~folks~~ to bring in members of the gas  
8 industry. As far as I know, this is the only body that  
9 includes gas and oil industry people in the same forum.

10 I, for one, would welcome some dialogue between  
11 members of the gas industry and me as a producer of gas and  
12 other members of this council that produce gas to see if  
13 there is some way that we can work out or be knowledgeable  
14 of the other person's problems. If there's some way that  
15 you could facilitate that, I'd appreciate it.

16 CHAIRMAN COOK: I think this request from the  
17 Department of Energy on the Natural Gas Study will be  
18 bringing together representatives from the gas industry and  
19 the oil side and others in our council. It will provide a  
20 useful forum there for some dialogue. If you think of and  
21 have other ideas of how we might facilitate that, I'll be  
22 happy to consider it. Maybe it will be that there's some  
23 additional aspect of this meeting that we could bring that  
24 about. We could expand the reception because I think a lot  
25 of discussion took place last night at the reception. I

1 think that was very useful.

2 Are there any issues that would liked to be  
3 raised by non-council members at this time?

4 (No response)

5 If not, then I would like to adjourn the meeting.  
6 Do I hear a motion to adjourn?

7 All in favor?

8 (Chorus of "ayes")

9 Thank you very much for coming.

10 (Whereupon, at 10:20 o'clock a.m., the meeting  
11 was adjourned.)

12 \* \* \* \* \*

1  
2 REPORTER'S CERTIFICATE

3  
4 This is to certify that the attached proceedings  
5 before the Department of Energy

6  
7 in the matter of:

8 Meeting of the National Petroleum Council  
9 Washington, D.C.  
10 June 28, 1990

11 were held as herein appears and that this is the original  
12 transcript thereof for the file of the Department  
13 or Commission.

14  
15  
16  
17   
18 Official Reporter  
19

20 DATE: June 29, 1990  
21  
22  
23  
24  
25